

Preferential Microcredit and Poverty Outreach in the Northwestern Mountainous Region of Vietnam

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1. Introduction

Microcredit is considered as an appropriate instrument to alleviate poverty, but the trade-off between financial sustainability and depth of outreach is existent (Manfred Zeller & Richard L.Meyer, 2002; Cull et al., 2011). The tradeoff can provide useful information to policy markers to decide whether or not to subsidize micro-credit institutions. In Vietnam, without collateral is till a major constraint of the poor to access credit. Therefore, Vietnamese Government established the Vietnam Bank for Social Policy (VBSP) on 4th October 2002 and its subsidized preferential credit programs have so far provided free-collateral loans to the poor and near-poor of the country. The Government has strong concerns over poverty reduction and poverty targeting of the program.

2. Objective

To examine the preferential credit program's depth of poverty outreach in the poorest region of Vietnam - the Northwestern Mountainous Region.

3. Methodology

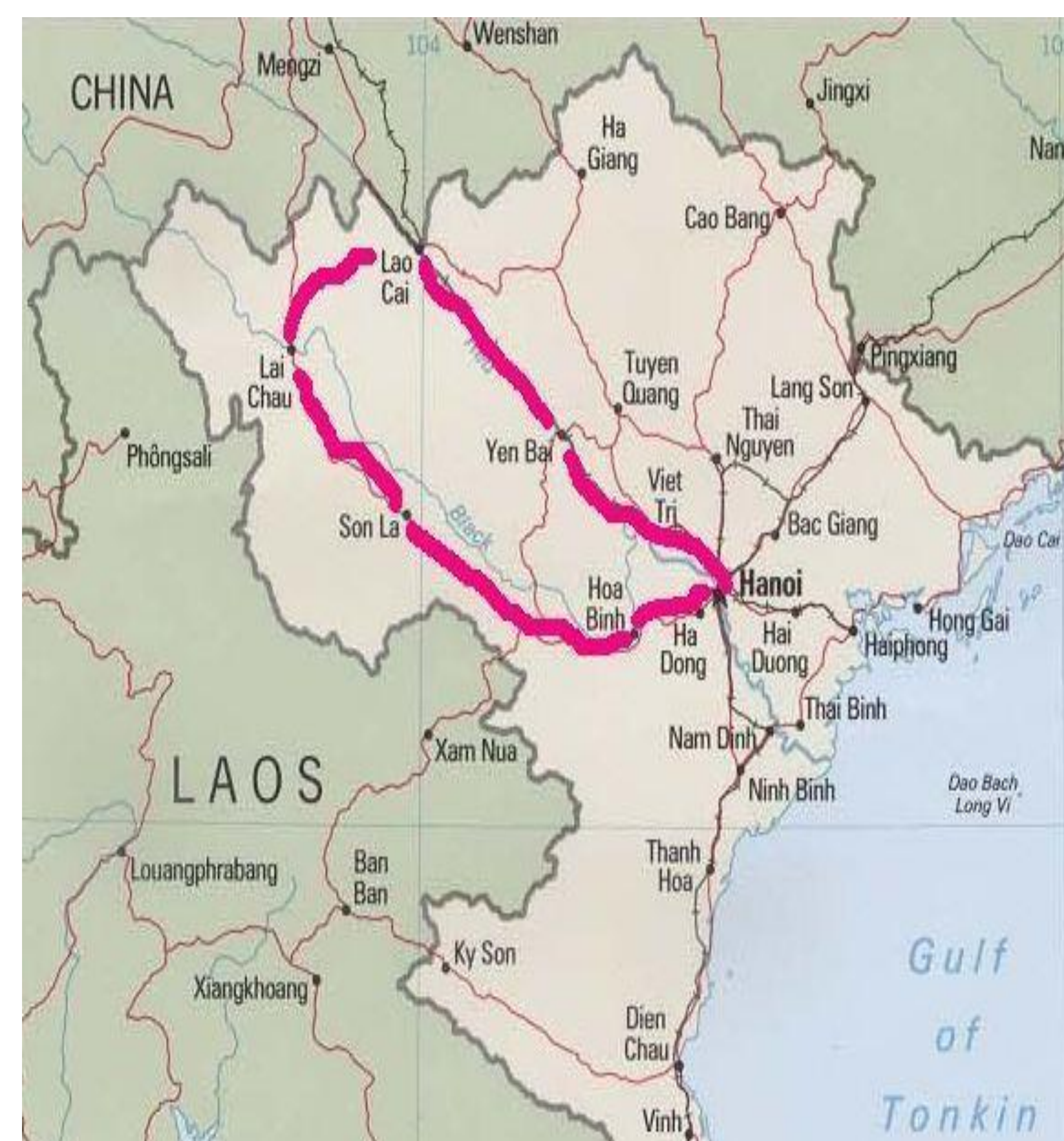
The study used data from the Vietnam Household Living Standard Survey which was carried out in 2012. Of the total 500 randomly selected households, 200 were clients and 300 were non-clients. Principal Component Analysis was used to compute the relative poverty scores which were then constructed for credit users in relation to the credit non-users who represent the overall population in the research areas.

4. Results

Table 1: Results of Principal Component Analysis

Variables	Correlation coefficient	Factor loadings
Per capita clothing and footwear expenditure (VND million)	1	0.687
Total area of land owned (ha)	0.22***	0.51
Value of house owned (VND million)	0.30***	0.67
Type of toilet arrangement (Binary, 1= households use suilabh or flush toilet with specific tank and sewage pipes; 0 = otherwise)	0.32***	0.70
Main source of water for cooking and drinking (Binary, 1= households use tap water or purchased water in tank; 0= otherwise)	0.17***	0.49
Kind of cooker (Binary, 1= households use gas or electric cooker; 0= otherwise)	0.24***	0.65
Family size (persons)	-0.12***	-0.34
Educational level of household head (years in school)	0.14***	0.30
Number of agricultural labors in last 12 months (persons)	-0.20***	-0.58
Value of livestock (buffalo, pigs, poultry)	0.25***	0.58
Value of transportation- related assets (motorcycles, bicycles)	0.21***	0.59
Value of electronic assets (televisions, video players, electric cookers, fans, radio)	0.38***	0.72
Eigen value		6.79
Variance explained		71.23
Kaiser-Meyer-Olkin (KMO)		0.823

Note: *** Significant at the 1% level
Source: own calculations



Location of Northwest Region in Vietnam

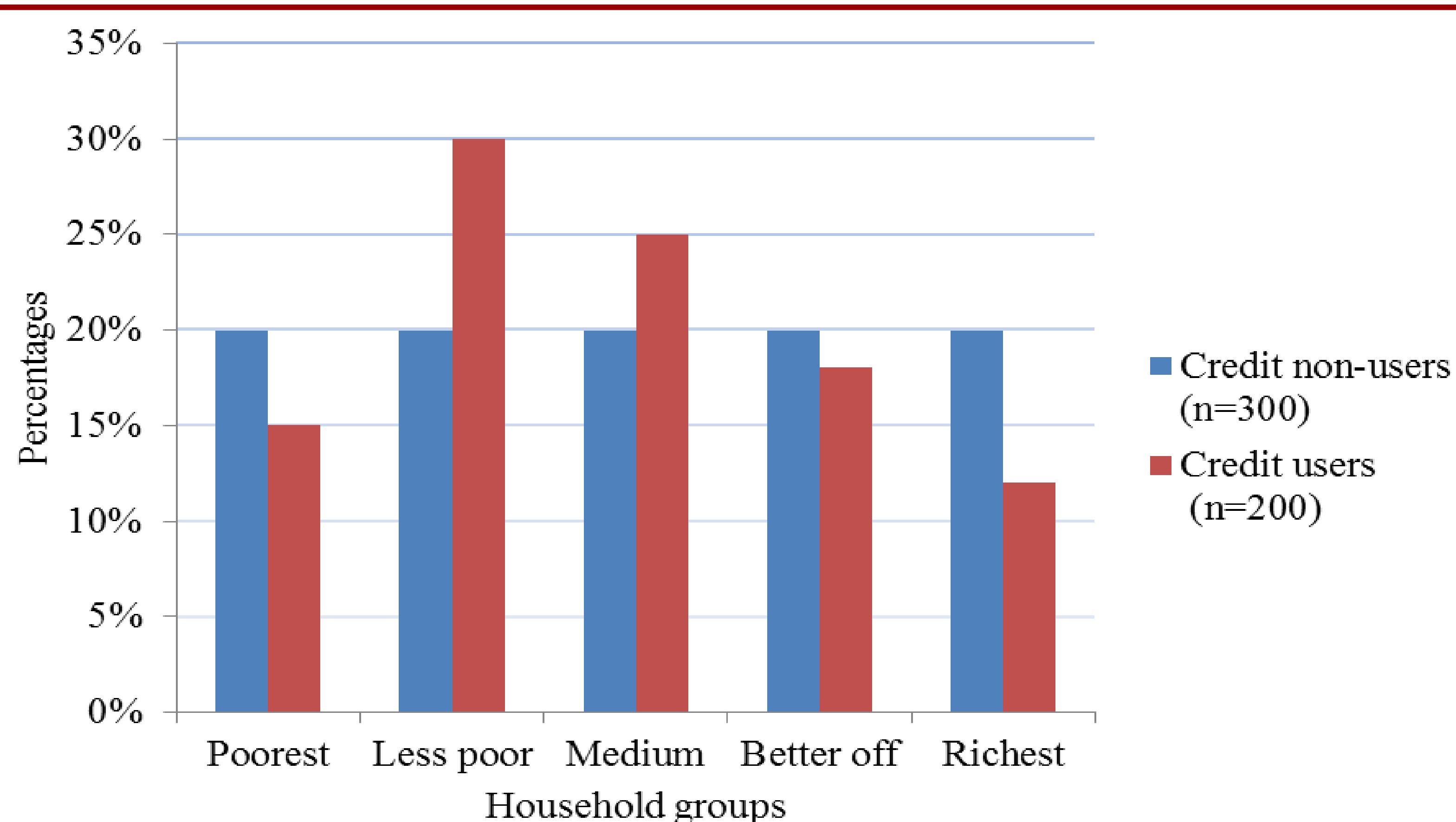


Figure 1: Poverty Outreach of Preferential Credit

Source: own figure

5. Conclusion

In general, the depth of outreach by preferential credit programs is quite consistent with their missions to serve the poor and the near-poor households. However, the poorest of the poor seem to be still underserved by preferential credit.

The governmental subsidies could be necessary. However, in order to target the poorest households, loan policies and credit service packages should be redesigned to be accessible by the poorest households.

References

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Preferential credit disbursement



Rice terraces and mountain terrain